

## Endowment Match Program Guidelines

Action: The council's Endowment Match Guidelines Review Subcommittee recommends that the council approve the attached guidelines for the Endowment Match Program, effective July 1, 2002.

The council established a subcommittee in May 2001 to recommend any needed changes to the Endowment Match Program Guidelines. The subcommittee recommends that the council approve the attached guidelines, effective July 1, 2002.

Currently, there are separate, but similar, guidelines for the research institutions and the comprehensive institutions. As shown in the attachment, the subcommittee recommends one set of guidelines for both types of institutions. Other major changes in the recommended guidelines include the following:

- More detailed responsibilities of the Board of Trustees and the Board of Regents such as board approval of each endowment match request.
- For the research universities only, require a least 70 percent of the program funds to be used to support the academic disciplines contained within the five new economy clusters. The current guidelines stipulate that at least 60 percent of the program funds are to be used to support specific academic disciplines.
- Require the institutions' or their foundations' independent auditors to include pledge payment schedules in the audited financial statements.

In light of pending court actions which may provide additional guidance on the issue of donor confidentiality, subcommittee members decided not to recommend any changes in this area. The existing guidelines place donor confidentiality within the purview of the institutional governing boards. The guidelines stipulate that the boards are responsible for the Endowment Match Program on their campuses. This responsibility includes board review and approval of all donations, gifts, and pledges for which state matching funds will be requested.

At the subcommittee's request, the institution presidents, working in conjunction with the council staff, are drafting a uniform set of procedures for review and approval of all donations, gifts, and pledges for which state matching funds will be requested. These procedures will be presented at the council meeting. The subcommittee recommends that the council also take action on these procedures.

## **ENDOWMENT MATCH PROGRAM GUIDELINES**

### **Effective July 1, 2002**

#### **Background**

Kentucky recognizes the importance of research to the economic well being of its citizens. The Endowment Match Program encourages private investment in public higher education research activities to stimulate business development, generate increases in externally sponsored research, create better jobs and a higher standard of living, and facilitate Kentucky's transition to a knowledge-based economy. The program matches public money with private gifts to fund endowed chairs, professorships, fellowships, scholarships, and mission support at the public universities. This collaborative approach is critical to advancing Kentucky's research presence into national prominence.

State funds for the program are appropriated to the Research Challenge Trust Fund (RCTF) for the research institutions and to the Regional University Excellence Trust Fund (RUETF) for the comprehensive institutions. Both trust funds were created with the passage of the Postsecondary Education Improvement Act of 1997 (HB 1).

The Endowment Match Program received surplus General Fund appropriations of \$110 million in 1998-99 and \$120 million in 2000-01. The council has requested another \$120 million for the program in 2002-03.

#### **Program Administration**

The Council on Postsecondary Education oversees the Endowment Match Program. The council establishes the areas of concentration within which program funds are used, develops guidelines for the distribution of program funds, and reviews reports from the institutions on the use of funds and the results achieved.

The boards of trustees and boards of regents of the Commonwealth's public universities are responsible for the Endowment Match Program on their campuses. The boards are to review and approve all donations, gifts, and pledges that will be used to establish new endowments or expand existing endowments for which matching state funds will be requested. The boards are to ensure that the purpose of the endowment and the source of funds comply with the council's guidelines and serve the public good. Documentation of board approval must be submitted with each endowment request. In addition, the boards are to review and approve the Endowment Match Program reports that are to be submitted annually to the council.

## **Allocation of Program Funds**

The council has requested \$120 million for the Endowment Match Program in 2002-03. The council requests that \$100 million be appropriated to the RCTF and \$20 million be appropriated to the RUETF. These funds would be allocated to the institutions as follows:

- The research university endowment match will be allocated two-thirds to the University of Kentucky (\$66,667,000) and one-third to the University of Louisville (\$33,333,000).
- The comprehensive university endowment match will be divided into two \$10 million pools designated primary and secondary. Each pool will be allocated among the institutions based on their proportionate share of total net 2002-03 General Fund appropriations.
- The primary pool will be allocated to the institutions and will remain in the trust fund until matched. The secondary pool will be similarly assigned to the institutions until June 30, 2004. If not matched by that date, other comprehensive universities that have fully matched their allocations from both pools may submit requests for additional matching funds. Funds requested from July 1 to July 31 will be matched on a pro rata basis based on the dollar amount of requests received. For example, if the secondary pool contains \$100,000 on July 1, and four institutions submit requests of \$50,000 each to the council between July 1 and July 31, then each institution would be eligible to receive \$25,000 in state matching funds ( $\$50,000 / \$200,000 \times \$100,000$ ). After July 31, requests will be considered on a first-in

basis until all funds are allocated. If multiple requests arrive simultaneously, then the pro-rata method described above will apply.

## **Matching Requirements**

The Endowment Match Program is conceived as a way to bring new money from external sources into the Commonwealth's system of postsecondary education. In order to receive state funds, the universities must provide dollar-for-dollar matching funds that satisfy the following requirements:

- Gifts and pledges must be from external sources. Eligible matching funds can be received from businesses, foundations, hospitals, corporations, alumni, or other individuals. Funds received from the federal government are eligible for state match provided the funds are endowed.
- General Fund appropriations and student-derived revenues (e.g., tuition and fees revenue) are not eligible for state match.
- The minimum requested matching amount is \$50,000. A university may combine smaller donations from individuals, businesses, foundations, or corporations to meet the \$50,000 minimum.
- All funds, both state and private, must be endowed. "Endowed" means only the investment earnings are eligible for expenditure, not the principal.
- Requests for state funds must identify the matching funds that are cash and the matching funds that are pledges.
- Pledges, or promises of future payment, are eligible for state match provided they are based on a written contract or agreement and include a payment schedule, which does not exceed five years from the initial pledge date. Pledge payment schedules showing receipts to date

and scheduled future payments are to be included in the audited financial statements of either the institution or the foundation.

- If pledged funds are not received within five years of the initial pledge date, the university must replace the portion of private funds not received with another eligible cash gift or the unmatched portion of the state funds plus an allowance for accrued interest will revert to the trust fund for reallocation. In such cases, time frame for the replacement or return of state funds will be negotiated between council staff and institutional representatives.
- University officials must notify the council staff of unpaid pledges six months before the end of the five-year deadline, or immediately when a gift has been revoked.

## **Use of Program Funds**

Investment earnings from the endowments can be used to support various endowed positions including chairs, professorships, graduate fellowships, undergraduate scholarships, and mission support as described below.

**Chairs:** New faculty positions, salary supplements to existing faculty positions, and associated expenses for those positions, including travel, start-up costs, and other professional expenses as permitted by university policy.

**Professorships:** New faculty positions, salary supplements to existing faculty positions, and associated expenses for those positions, including travel, start-up costs, and other professional expenses as permitted by university policy.

**Graduate Fellowships:** Fellowship stipends for outstanding graduate or professional students, which may include travel and other expenses as permitted by university policy.

**Undergraduate Scholarships:** At the comprehensive universities only, program funds can be used to support scholarships for outstanding undergraduate students, which may include travel and other expenses as permitted by university policy.

**Mission Support:** At the research and comprehensive universities, program funds can be used to support the institution's research and graduate mission. At the comprehensive universities, program funds also may be used to support programs of national distinction. Support may include funding for visiting scholars, nationally prominent publications, the dissemination of research, and the advancement and support of the general research mission as specified in university regulations and policies.

## **Areas of Concentration**

- For the research institutions only, the council expects state and private matching funds to be substantially directed toward supporting research that leads to the creation, preservation, or attraction of businesses that will increase the number of good jobs in Kentucky. For these purposes, "good jobs" are defined as jobs that yield income at or above the national per capita income.
- The council recognizes that strong research programs are clustered around related academic disciplines and encourages campus officials to create a critical mass of scholars who can influence the nation's research and academic agenda.
- The council recognizes that the boundaries of traditional disciplines are increasingly permeable and encourages the use of endowment funds for interdisciplinary, problem solving, or applied research activities.
- The council recognizes the importance of cooperation between universities and corporations and encourages partnerships in the technologies, engineering, and applied sciences.

- For the research universities only, at least 70 percent of program funds must be used to support academic disciplines contained within five new economy clusters: human health and development, biosciences, materials science and advanced manufacturing, information technologies and communications, and environmental and energy technologies. These areas are of strategic benefit to Kentucky and are core components of the knowledge-based economy. To the extent possible, the comprehensive universities are encouraged to use program funds for these same five clusters.
- The council recognizes the contribution of arts and humanities to quality of life and to economic development in the Commonwealth and is receptive to limited use of endowment funds in this area.
- Program funds cannot be used for positions, which are primarily administrative. However, researchers or scholars with an active research program who may have an appointment such as department chair, center director, or dean are eligible.
- Program funds cannot be used to fund capital construction projects.

## **Annual Reporting**

Institutions will provide detailed annual reports describing how the state and matching funds are used by October 15 each year. These reports will include such items as the number of endowed chairs and professorships by name and incumbent, the specific support services attached to the chairs and professorships, and the benefits of the program to the Commonwealth of Kentucky in terms of jobs, revenue growth, creation of wealth, and improved standards of living. The reports should also identify institutional outcomes, such as increases in sponsored research directly attributed to the program, changes in the quality of students and measurable outcomes (retention, graduation, pursuit of advanced study, and employment), and the creation and profitable use of intellectual property.



## **DRAFT**

The council staff, working with the university presidents and their staffs, will devise and maintain reporting procedures that specify the content and format of Endowment Match Program annual reports.

Council on Postsecondary Education  
February 4, 2002

**Endowment Match Program  
Procedures for Accepting Donations, Gifts, and Pledges**

All gifts and pledges to the university that are eligible for state matching funds from the Endowment Match Program are required to be approved by the university board of trustees or board of regents. The president and chief development officer shall review all gifts designated as confidential to ensure that the terms of confidentiality are reasonable and serve the interest of Kentucky and the university, as well as those of the donor; that the purposes of the gift are consistent with the mission of the university; and, that the university has full control of the gift. Certain specific data are determined for each gift: (1) donor name or “anonymous” if that is a condition of the gift, (2) the amount of the gift, (3) the pledge dates for any additional payments (final payment must be received within five years of the initial pledge date), and (4) a description of any restrictions placed on the endowment by the donor.

This information is to be reviewed by the chair of the finance committee of the board of trustees or board of regents and the president of the university prior to the finance committee meeting. After review and approval by the finance committee, a recommendation will be presented to the full board for action.

Following each meeting of the trustees or regents, a report is prepared for the Council on Postsecondary Education that itemizes all of the information noted and includes a copy of the recommendation, dated and approved by the board. This information will be submitted to the council along with a copy of the endowment agreements and request for transfer of matching funds to the university.

The university development officer shall maintain an ongoing audit of these transactions to insure follow-up on all pledge dates for installment gifts.